

Testimony by former U.S. Congressman Don Ritter*
before the
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on
US Policy regarding AID Effectiveness
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Risk Perception and Security

Let's start with risk or risk perception as I will put forth a different view of the security issue when it comes to reconstruction of the country and the rebuilding of its institutions. It is based on the fact that the perception of security risk of Afghans in Afghanistan is vastly different and far less than the perception of security risk we get in the media.

Policy analysts, like the media, get noticed when there's bad news to report, when a crisis is occurring. This is a phenomenon not defined as left, right or center. Murder and mayhem enjoy equal opportunity coverage whether in Southeast, Washington, DC, Iraq or Afghanistan. Indeed when considering security or risk, we need to ask ourselves, what is the murder rate in DC or Detroit or LA compared to Kabul, Herat, Mazar, Kunduz, yes, even Kandahar in the south?

My gut reaction, someone else will have to gather the data, is that it is higher in those U.S. cities. I take taxis everywhere in Kabul while our Embassy folks are riding in armored vehicles. Maybe they need to but that's not the Kabul that I and the Afghans see. They, in particular, are used to operating in far more dangerous situations than the present.

The coverage on Fox News of blood and guts resulting from the explosion of the day is likely to be equivalent to that of CBS. Similarly, the analyst or perhaps pundit or government official, whether conservative or liberal will also respond to the extreme behavior that he or she reads about in the papers or sees on TV. Most often, they are reading and responding to what other analysts or pundits have said about a problem or violent behavior.

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Respected members of the Subcommittee, this is a luxury the private sector doesn't have. Indeed the Afghan people don't have it. That's why we in the private sector are out and about doing business as usual.

An increase in Taliban violence is duly noted as is the arrival of suicide bombers from outside the country. They are mainly concentrated in certain areas of the south and in areas near to Pakistan. They are mostly a threat to our war fighters and sometimes to Afghan officials in those regions. ***It's not good but it will not stop the Afghan people from moving forward unless we stop the process for them.***

I'm not trying to be a Pollyanna but the American people need a lot more perspective on this security issue and the TV-driven media and the front pages of the newspapers, by virtue of what they all do for a living, are not helpful.

The World Bank Looked at priorities of Afghan businessmen and women and security as an issue didn't show up!

The World Bank recently published a survey where members of the business community who were out and about in five major Afghan cities were asked what their greatest problems were. Electricity, access to land, access to capital, decent roads, lack of legal structures, corruption, capable labor force...., plus taxes, etc. Security did not appear on their list of concerns until way down the list and at that point the concern was not the Taliban but common crime that all businesses face in big cities! These people have employees and their employees have families. Surely if personal safety were threatened, these folks would feel it.

Indeed, I would feel it.

Real fears – real risks:

The priorities of the business community, worth repeating, are access to electricity, land, the securing of capital for building their business, concerns with arbitrary government actions and a host of other issues. Believe me, the business community, including me, fears arbitrary actions by government officials, stalling, bribe seeking and perhaps, most of all incompetence and corruption in the government much more than they do a bullet or a bomb from the Taliban or Al Qaeda.

They fear rules and regulations imposed by 21st century societies on their backward nation that will make them diseconomic and dysfunctional. A recent example is UNEP's environmental policy creation that calls for an interministerial process of permitting industrial facilities before they can be built. Can you imagine the bureaucratic logjam that would occur in getting through the paperwork when the ministries really don't have the capacity to make those judgments?... and the fertile ground for corruption as businessmen and women seek to protect their investment and start working in a timely fashion... or more likely when officials ask for bribes?

Why wasn't the community of manufacturers brought into the process of formulating the regulations before concoction of that travesty on common sense? Where were our own policy-makers?

We fear Moustifiati (the Afghan IRS) and the Ministry of Finance taxing our gross, as opposed to our profit, or taxing our investment itself, at the already way too high for Afghanistan 20% rate! Some educated in Soviet economic do not know the difference. These are the dangers we experience, not bombs.

There are as well Afghan government officials who see the private sector as adversary to their authority or a source of deep pockets to be bilked. Just recently, a powerful Ministry descended upon the largest housing development in Kandahar and claimed that the land which had been ceded to the developers by the then Governor some three years previously, belonged to them. No court order, no papers, just guns, threats and violence.

This kind of action is far more threatening to the creation of Afghan wealth and jobs than the Taliban or Al Qaeda.

The U.S. must work with the GoA to educate, train and influence, and to prevent these travesties for the Afghan market economy to actually be real.

Bottom line to the Security Issue:

The brave and competent men and women of the US armed forces along with coalition troops are responsible for us business people being there in the first place by confining the violence in large measure to more remote regions. First, they routed the Taliban and Al Qaeda and now, except in certain well known areas, the enemy is on the run. They mostly run back

into Pakistan where they subsist miserably in caves. Sure, they can be lethal but the vast majority of Afghans and foreigners, let's guess 99%, are not exposed to their misdeeds. Thank you U.S. military!

Afghan people's real concerns:

The American people need to know that Afghans are concerned with the same things that we are albeit at far lower standard of living. They would like to have a decent job, feed, clothe and house their families. I am talking about the 99%. They fear sickness, hunger, lack of a decent education for their kids and no work. The American people need to know that the Taliban and Al Qaeda are far from the minds of average Afghans.

To succeed in yet another "long twilight struggle", this time with a radical and distorted Islam alien to the Afghan people who are, in fact, strong Muslims, we need to give more hope and help to the people....we need to give it in a more direct fashion. That means helping them not only in reconstruction of the country but repair of the very fabric of society, thread by thread. Having invaded and protected it with our might, our blood, our treasure and our reputation, we now, like it or not, have a fair degree of ownership of the situation.

Our Assistance dollars can be far more effective if they are directed more to Afghans:

If the reality on the ground is something other than what we are getting in the media and if our success is so dependent on improving the lives of the Afghan people, then the American people have a right to ask, how are we doing on that front, essentially the economic front? How are the billions of dollars spent in rebuilding the country affecting social and economic progress?

The answer is, not near good enough. Of the aid flowing into the country only a fraction remains as the US and UN Agencies, NGOs, and foreign contractors including U.S. of all shapes, sizes and types siphon off funds to pay expenses for personnel and programs that positively dwarf what Afghans get out of it. In Kabul, the price of housing rivals Washington, DC. The foreigners sop up the best employees paying salaries and benefits totally unaffordable to Afghan companies. This is not new, it is the down side of foreign aid.

Everyone is appreciative of the U.S. building roads, bridges, schools, hospitals, a new university and so on. The list is long.

Mentor, train, upgrade

Yet the U.S. government agencies, by far the biggest contractor for goods and services, must take the lead in upgrading the capacity of Afghan companies and their employees to do the required job in every situation possible from construction to products to logistics to services of all kinds. That process needs to be accelerated and invested in a hundred fold over the status quo.

If the US entity's answer is that Afghan companies don't have the skill, then teach them, train them and mentor them in order to upgrade their output. Invest in their technology and their management. The current system, with exceptions, is not doing that.

One exception which could serve as a model to be copied is the US Army Corps of engineers program to require that their contractors have mentoring and training for the purpose of getting more Afghan companies and employees in on the US assistance dollar while building their capacity for the future.

They also have a pool of contracts which go only to Afghan companies. Contracts given to Chinese, Turkish, Indian and Pakistani companies *may* get a job done more rapidly and *may* have higher quality but then the foreign contractors leave, and their money leaves with them, and their skills leave. Taxes are not paid and participation in the new democracy is non-existent.

I will mention one name in this context, US Army Commanding Officer in Afghanistan, LTG Karl Eikenberry. He and his charges have this philosophy to involve real and qualified Afghan companies in direct contracts and work for the US Army, no middle men. They are working to upgrade companies with promise as well. We need to look closely at what he has actually accomplished and move it forward and possibly build upon it.

How much aid stays in the country?

Dear members of Congress, I submit that while we have come a long way from the Taliban times and nearly 25 years of ruination prior to 9-11, our assistance programs face a crisis in that the percentage of U.S. taxpayer dollars remaining in Afghanistan and helping to reconstruct the country is thought, felt and understood to be extraordinarily small.

Some people estimate 15%. When I mentioned that figure to NYU endowed professor and now Chief Economic Advisor to President Karzai, Ishaq Naderi, he responded with a smile, “Don, do you think it’s that much”? Is it more or is it less, we don’t know, but we need to put our heads together and find out where we are so that we can benchmark where we need to go and need to be in the future.

The amount that stays presently varies from program to program but everyone is pretty much accepting that dirty little secret.

Getting data on retention of aid resources and setting up a continuous improvement process:

We need much harder and better information on the flow of these taxpayer dollars and then we need an overhaul of our basic policy and approach incorporating some form of interagency mechanism that is connected to Afghan reality, robust and responsive to meet periodically and create strategies to both promote and monitor improvement.

We need to set goals and benchmark progress towards those goals in a transparent process that invites in ideas and ways to increase the percentage of aid retained.

Congress needs to be involved:

Last but not least, we desperately need concerted Congressional and perseverant public oversight of the process. We need change now as we are running out of time, and the momentum of past practices is great.

An Economic Pillar to U.S. Policy in Afghanistan:

Ladies and gentlemen, security and governance, the two pillars of U.S. policy being implemented by the Departments of Defense and State, respectively, cannot be removed from the economic pillar, a pillar yet to be constructed. And while that is more and more being understood in both Defense and State and USAID as they try and address the issue, a break with past policies and practices may be necessary to get the desired results.

Increasing tenure of USG people in country:

Those working for the USG in Afghanistan are some of the finest men and women I have known and they are dedicated public servants and they did not create the policy framework within which they work. They are mostly in country for a year and when they truly get up to some sort of speed they are gone. They are cloistered most of the time in spartan living conditions within the U.S. embassy compound and they deserve our complete respect but they have limited opportunity to live the Afghan experience.

While our people show personal integrity and professional excellence, their perspective, understandably affected by short tenure and limited contact, is also limited – somewhat akin to touching an elephant blindfolded and the toucher being asked to identify the touched.

Stellar members of the USG's Afghan team have been assigned to Iraq. Tenure is a real problem and needs to be addressed.... by Congress, if necessary. Other countries seem to keep their people on the scene for longer periods of time, why can't we? Can we really defend the idea of one year in such a complex country on policy grounds?

Who has leadership responsibility for the Economy?

There is no signal point of responsibility for building the economy, a market economy as stated in Article 10 in the Constitution. No one in our policy playbook has explicit duties to foment a vibrant, wealth-producing private sector. It is necessarily a secondary priority for war fighters, diplomats, USAID infrastructure builders and for that matter, the UN and the big NGOs.

That may be understandable but it is not acceptable if we are to do our best to win the war and build the country.

The economy is not presently a pillar in the established order of U.S. policy-making for Afghanistan because we are simply not set up for it in our government structures and aside from a very small program in the Commerce Department which has been swamped by Iraq demands, there is no high-level USG attention dedicated first and foremost to the economy, as there is to Defense and Diplomacy. Commerce could easily beef up its work to include matchmaking between Afghan and US firms but what is needed most is a powerful economic policy and development initiative based on growing Afghanistan's market economy.

Ambassador Zalmay Khalilzad, during his tenure in Afghanistan, saw a lot of these problems early on and tried, through the Afghanistan Reconstruction Group (ARG) in the Embassy and its ARG "Reachback" team over at the Pentagon, to grease the skids on speeding project funding and execution but ARG still did not, or perhaps could not, address the centrality of the economic issue and tightly interweave it with the issues of security and governance plus counter narcotics.

On Sunday, Jack Kemp, on Meet the Press made the comment -- it was about Iraq, saying, "My most serious problem is that there is no ***economic component*** to the war on terror. In other words, there is no 21st Century Marshall Aid plan....." He later alluded to the same idea when he talked again about, "some ***economic component*** that will lead to jobs and an opportunity to better one's life, one's condition in life.

Please know that countering poppy growing is related to all three of those pillars, security, governance and the economy. We can all admit there is no counter narcotics success without success on the economic front no matter how much criminal justice and eradication efforts are made. In a country with 60 to 70% unemployment, the poppy will remain the economy of choice for too many unless we build another economy that is reasonably competitive.

We need that economic pillar in our playbook and we need to creatively empower it ***at no less effort than we do the security and the governance functions if we are to succeed.***

The Afghan Government and the private sector:

The donor community has just signed a Compact in London with the Afghan government which the Afghan private sector supports. That agreement gives far more appropriating powers over donor funds to the Afghan government with supposed built-in safeguards to spend the funds wisely and spend them in Afghanistan and on Afghans. That's tricky to be sure but one surmises that no amount of corruption could rival the present institutionalized and legal outflow of assistance funds.

I personally think it's a good thing.

The GoA lack of capacity, admitted by them, to deal effectively with a market economy and its business community often leads to abuse of the principles of a market economy and the rights of the entrepreneur. For government officials, it's not just corruption; it's also the lack of basic understanding of modern economics on the part of those who serve as public officials. It is very important that the Compact have appropriate built-in safeguards.

Price Controls in a "market economy":

Members of Congress may be surprised to find out that price controls still exist in stores in the major cities across Afghanistan. Prices of milk, eggs, cheese, bread, meat, fruits and vegetables and other consumables fall under the price control apparatus in each city. Several hundred of these enumerators are employed in Kabul to go out to stores and check on prices daily. They can close a place down if the store-owner doesn't comply. Corruption is rampant as store owners keep the enumerators at bay.

Here is an economic issue that is disastrous to bringing higher value-added, meaning higher-priced agricultural products that could compete with growing poppies to market. It is potentially devastating to the USG's USAID Alternative Livelihoods Programs in the south, east and north, designed at substantial cost to provide economic alternatives to poppy growing. How can one compete with poppies if the price of ones higher quality output is pushed down to the levels of lower quality products.

More than that, price controls repress entry into the market of new players and new Afghan products with varying prices and varying quality that could

be found on the shelves in the stores in addition to low priced ones. This is one of the reasons why all higher-end or finished agricultural products are currently imported.

The giant prime contractors: Reform necessary

For goods and services, the giant contractors that follow the U.S. military and government around are letting contracts on the basis of price only. That may maximize the profit for the U.S. prime but it promotes low quality and fly-by-night operations that respond to the stipulation for low-ball, low quality bids.

Middlemen with political connection are getting contracts and establishing new businesses without any track records based on one contract if it is large enough! That puts existing businesses with a record and reputation at a tremendous disadvantage. We should favor those who are serious about their business not quick buck artists that are gone when the contract runs out.

There needs to be a USG policy written into regulation where our U.S. prime contractors do business with established firms that can show their record and bona fides and not skew the market by creating new firms through middlemen with political influence.

There needs to be a policy where U.S. prime contractors like Halliburton seek some measure of quality as opposed to price only otherwise the goods and services will be junk and they will be provided by incompetents who are not engaged in real businesses, only something set up to milk a big contract for all it's worth.

But taking the lowest bidder also maximizes the profit that goes to the prime contractor who is generally not Afghan and then that money leaves the country as well. The result: Lost business for Afghans, junk performance for Americans and more money in the pockets of the foreign primes. This is happening across the spectrum of U.S. contracting and is not helpful to a long-term Afghan market economy.

By not strengthening companies which are in the market economy for the long haul, serving Afghans as well as foreigners, U.S. dollars boost a short-term solely contract-seeking, non-market situation.

Foreigners Bid up Prices:

The economy in Kabul is wildly distorted with government assistance agencies, the UN and well-heeled NGOs competing for land, buildings and personnel. Prices have been bid sky high for the private sector. These groups are constantly snatching the best and brightest of the Afghan work force from the private sector who in no way can match the western salaries with their hazard, hardship and other benefits added in.

There are three economies in Kabul: First is the foreign government and NGO economy; Second, is the contract and grant economy; and Third, is the market economy. Because of these distortions, Kabul has become less and less attractive as a place to do business if one is not related to the first two economies. Such is the damage to the market economy of current assistance policy.

Substitution of major portion of aid with credit: Building a market economy:

With all the difficulties in getting the foreign assistance programs to reach the Afghan people, the alternative is to reduce the size of the foreign footprint and its competition with the Afghan market economy by boosting the Afghan private sector potential directly and expanding credit to Afghan businesses to start, expand, employ, prosper and to repay the loans.

- Donors in London were willing to provide funds directly to the Afghan government which is problematic but they missed out on providing credit to the private sector.
- Donors could provide aid in the form of equity participation in local private banks and then use their equity position to influence lending for investment projects and to hasten the GoA's adoption of international standards on property rights and bank collateral rules.
- Enterprise Funds have had success in the NIS in post-Soviet times and Afghanistan may be ready for that approach.
- The Marshall Plan was a trust fund or revolving loan fund and it was successful in both rebuilding Europe and repaying the loans themselves.

That's what Jack Kemp was talking about when he referred to the lacking ***"economic component"*** of the war on terror.